

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

ADDITION OF EVERY DOOR DIRECT MAIL-
RETAIL TO THE PRODUCT LIST

Docket No. MC2012-31

**Comments of the National Newspaper Association
on the Postal Service's Request to Add Every Door Direct Mail-Retail
to the Mail Classification Schedule**
(July 30, 2012)

On July 10, 2012, the United States Postal Service petitioned the Commission for authority to create a new market dominant product called Every Door Direct Mail-Retail (EDDM-R). The petition follows a Market Test originating in Docket No. MT-2011-3, where the Postal Service tested an offering of advertising mail services that eliminated certain mail preparation requirements and fees that remain in place today for most mailers.

National Newspaper Association believes the EDDM-R test produced few answers to questions raised by NNA and others at its onset and that the current petition does not yet demonstrate compliance with 39 U.S.C. §§3622 and 404a, both statutes that put the burden of proof on the Postal Service. NNA urges the Commission to defer a decision on the Postal Service's request and to require a fuller record demonstrating:

- That EDDM is not significantly drawing mail from existing postal products, primarily from shared mail and newspaper mailing programs, where participants may not perceive themselves to be "mailers;"
- That costs incurred by the program are accurately charged to EDDM; and
- That the Postal Service has demonstrated--rather than simply opined--that the product has not created unfair competition, particularly against smaller business in the advertising and mail service provider sectors. Since EDDM does put the

Postal Service into a direct advertising sales position with favorable conditions it sets for itself and does not permit in regular mail products, the burden of proof should be significant.

Background

The test, according to USPS, produced revenues of \$43 million. Though the test drew heavy opposition and criticism from a variety of mail users, mail service providers and newspaper publishers, the Commission permitted the test under the product's previous name, Marketing Mail Made Easy or MMME. Order Approving Market Test of Experimental Product--Marketing Mail Made Easy, Order No 687, Docket No. MT2011-3, March 1, 2011. The Commission's consent was contingent upon the Postal Service's production of data on customer usage, impact upon postal operations and diversion from other mail categories.

The Postal Service in November, 2011, petitioned for an exemption from the \$10 million annual revenue cap generally imposed upon market tests, saying it expected Every Door Direct Mail to produce revenues in FY 2012 under \$50 million. Request of the United States Postal Service for Exemption from Revenue Limitation on Market Test of Experimental Product--Every Door Direct Mail, id, November 18, 2011. The Commission granted the exemption. Order Granting Request for Exemption from Annual Revenue Limitation, id, January 23, 2012.

Now the Service asks to terminate the test. The Postal Service has produced some of the data during quarterly reports. It is unable to produce operational and cost data, but nonetheless believes the tested product is ready for a place in its permanent market dominant product list. Its data have indicated that most EDDM mail is presented by mail service providers at Business Mail Entry units, but that the use of the Retail product is growing. It says 32,000 small businesses have now registered to use it. It suggests significant changes in the program, including a higher price of \$.16 rather than the \$.142 (\$.145 as of January, 2012) tested, and permitting up to 5,000 pieces mailing per ZIP code, rather than the 5,000 pieces per mailing per day originally proposed.

NNA's previous comments

National Newspaper Association did not vehemently oppose the Market Test, though it expressed significant reservations. In a letter from Max Heath, NNA articulated its support for USPS rule changes enabling Simplified Addressing on city carrier routes, but pronounced it was "much less excited about MMME." Heath raised numerous concerns, including the irony of the Postal Service's forgiving stringent mail preparation requirements for its own new product creation while imposing them vigorously upon newspaper mailers; creating the potential for an unfair marketplace; prohibiting use of Simplified Addressing by mailers for PO Box sections; and resurrecting competitive tensions between newspapers and the Postal Service. The point of Simplified Addressing, Heath opined, was to remove entry barriers and to give mailers an opportunity to increase mail volumes, and he believed the MMME unnecessarily injected the Service into the marketplace. He said:

"The Postal Service took a big step forward in its new Simplified Addressing policy, and then slid two steps back by wrapping a sensible reduction of entry barriers into the present proposal....the Simplified Addressing rule deserves some time to work on its own, without being muddied by the trappings of the ornamentation suggested in the market test." Comments of National Newspaper Association, Docket No. MT 2011-3, February 4, 2011.

NNA's experience with EDDM

NNA's traditional stance with USPS has been to view it as a circulation partner, and to seek to accommodate USPS's larger goals wherever it can without incurring significant harm to the community newspaper industry. As Heath's 2011 comments indicate, NNA welcomed the Postal Service's rule change to permit Simplified Addressing on city carrier routes, and was poised to promote the change to encourage publishers to use more mail. EDDM added an unwelcome twist to the outcomes it had hoped for. But Heath has nonetheless written about the program in NNA's publication, Publishers' Auxiliary and provided industry training through his workshops around the country on how Simplified Addressing and EDDM can be used by newspapers to

provide targeted direct mail sales to advertisers along with newspapers' product mix of in-paper and TMC/shopper advertising.

NNA has conducted no systematic studies of its members' experiences with EDDM, but anecdotal response to Heath's training suggests several findings would be likely:

1. The test has indeed increased competitive tensions and generated ill will toward the Postal Service as some local postmasters have aggressively courted newspaper advertisers. Perhaps the ill will has become mutual. In some cases, disparaging comments by postal employees about newspaper advertising have been reported and NNA has heard reports of an unfortunate number of comments from postal employees that USPS does not want Periodicals mail because it is unprofitable.
2. Some postmasters--many of whose post offices may depend upon newspaper mail to remain open--have approached publishers in a variety of ways, ranging from urging them to use EDDM to solicit new subscribers to trying to get them to divert certain regularly-mailed TMC/shopper programs to EDDM so that the postmasters would get "credit" for increasing EDDM volumes. It is clear that postmasters are under heavy pressure to grow this program.
3. Though USPS reports it has worked with local printers to encourage them to promote EDDM, no specific outreach to local newspaper publishers with printing operations has been reported, suggesting that USPS may actually be attempting to drive business away from newspapers to other commercial printing operations that it does not perceive as competitive.

4. A few newspapers--primarily those with job-shop printing operations--have used EDDM to provide customers with one more product offering to supplement newspaper advertising. Offering sheet-fed printing services (both black and white and color) to local communities is an old standby of community newspapers, and they may often be only such printers in small towns.

5. To the extent that EDDM has increased volume by converting advertising from NNA's newspapers to the new program, most of the volume has simply converted from the newspaper mix of Periodical/Standard High Density/Standard Saturation mail to the lower priced EDDM moving from prices of 17.2 cents to the lower priced EDDM at 14.5 cents. That's a difference of 2.7 cents, or 18.6%, that USPS may be forfeiting in many if not most instances. Because most NNA newspapers rely on the mails for primary distribution of both Periodicals and Standard Mail products, it would be expected that any diversion from newspapers to single piece mailings would result in a shift of volume from one category of mail to another.

It would be fair, therefore, to draw a preliminary conclusion that NNA members' experiences with EDDM has been mixed. In a different climate, the product might find acceptance as an opportunity for community publishers.

However, since the market test has begun, newspaper mailers have also encountered three other unwelcome phenomena: 1) stringent and sometimes punitive uses of Critical Entry Times and mail verification rules that increase newspapers' cost of mailing in a timely manner without changing production schedules that losses of late-arriving news and advertising content, and inhibit their abilities to reach their own customers, 2) declining service attributed to closings of mail processing plants, requiring publishers to add additional private costs transportation to reach Delivery Units in their primary market areas, and loss of subscribers in the outer markets served by closing plants; and 3) the Postal Service's proposed Negotiated Service Agreement with

Valassis in Docket No. MC 2012-14. The sum of events has given rise to a growing belief within the industry that USPS is out to cripple newspapers with costlier and slower service and then grab the advertising that publishers need to operate by offering new competitive mail programs.

Under the circumstances, the modest gains newspapers might experience with EDDM are overshadowed by the threatening presence of the Postal Service's looming competitive threats.

These competitive tensions are not new. The Postal Service has long considered newspapers as much a prime competitive target as a mailing customer, and the Commission has toiled for many years to determine how much competition is fair. The deliberation in this docket will not resolve this question, but it could contribute productively to the rules of engagement.

Many questions remain unanswered

Many have raised serious legal questions about the Postal Service's position in the Market Test, including concerns about whether unfair competition under 39 U.S.C. §404a has generated unfair competition by a government enterprise against small businesses. ValPak Direct Marketing Systems and Newspaper Association of America have contributed thoughtful deliberation on these questions and NNA shares many of their concerns. In fact, NNA's comment on the legal issues raised in Docket No. MC 2012-14 could be replicated in this docket. In light of the fact that the Commission is well aware of these issues, NNA here offers more specific questions that it believes must be answered before the Postal Service's request for product classification is granted.

- 1. Does the Postal Service truly know how much EDDM volume comes from new users?**

Consistently before the Commission and in comments to industry, USPS has asserted that the program's goal is to appeal to small businesses that have not previously been mailers because of the "cost and complexity" of using the mail. However, the tools used to measure whether USPS is in fact attracting new customers with EDDM or simply diverting them from existing mail products have not been fully vetted. Exactly how is the Postal Service asking new customers whether they have been previously used the mail?

For example, a local restaurant owner contracted by a sales person to run an ad in a local newspaper's Periodical/Standard mail mix would not be likely to perceive itself as a direct mailer, even if the distribution was primarily or completely in the mail. If asked whether it had used the mails in the past 90 days, the owner's response would likely be "no." In that context, the restaurant owner would consider itself a newspaper advertiser, not a mailer. That advertising could occur in ROP (Run of Paper) advertising or as an advertising insert that travels through the mailstream.

That same owner solicited by a ValPak shared mail program sales person, for example, might well not consider itself a "mailer," but rather a participant in a direct marketing program. Other possible product mixes, including online sales packages that include some mail, may exist that do not generate a local business owner's perception that it is a "mailer," but nonetheless result in mail.

It seems entirely credible, therefore, that if a customer is asked whether they have used the mail, the question is interpreted by the customer as "have you brought your own single piece mail into a BMEU?" Given the admitted complexity of doing so, many businesses that have in fact used the mail through other avenues would say "no." Though on the surface that response may label a "non-mailer," a deeper examination might indicate otherwise.

The Commission should require the Postal Service to examine prior advertising histories of its new EDDM-R customers more closely before leaping to the conclusion that EDDM is generating truly new mail volume.

2. Is this new product offering necessary in a competitive marketplace?

The Postal Service repeatedly asserts that EDDM is giving local businesses new access to the mail by relaxing mail entry requirements and fees. But as ValPak has previously commented, the local advertising marketplace is a hotbed of competitive activity. Of course, a new mail offering priced lower than existing competitors can provide would achieve some acceptance, but at what cost to the marketplace and existing postal customers who might in the long run be better generators of mail volumes? It is entirely possible that with its market power, USPS could put a small newspaper or mail service provider out of business but then find itself with insufficient resources to continue marketing EDDM. The result would be a net loss of mail volume. Numerous small businesses that serve this market have expressed this concern in blog posts in response to a query posted by the USPS Office of the Inspector General. <http://blog.uspsoidg.gov/index.php/2012/every-door-direct-mail-coming-to-a-tv-near-you/>

NNA suspects USPS did no penetrating examination of the true mix of advertising options at the local level before it launched EDDM, but rather kept the program out of view while it publicly considered the Simplified Address program. As pre-eminent direct mail expert Harry Turner commented, the mailing industry felt blind-sided by MMME/EDDM's entry into the product mix and was left wondering why experiments remembered from the 1950s were being relived. Comments of Harry Turner, Santa Fe, NM, Docket No. MT2011-3 at 2.

NNA's Heath, in discussions with USPS program administrators, found little awareness that community newspapers are heavy users of Standard Mail, both DDU/High-Density and Saturation. The access to the mailstream that newspapers are already providing through Standard Mail is persistently disregarded by USPS.

3. Is it a wise use of local postal officials' time, resources and expertise to market EDDM?

The multiple stresses upon postmasters are regularly articulated to NNA through its publishers. Smaller staffs, new trainees as experienced staff enter retirement, complexities of consolidation, threats of retribution if various audit rules and directives are not followed and the need to provide promised services to existing mailers so that mail volumes do not further decline are all elements churning around in the lives of today's postmasters. Yet they are now expected to also sell advertising. And to the chagrin of newspapers, postmasters possess confidential information on the scope and reach of newspapers TMCs and their paid products that could be used against them to sell EDDM. That alone creates a huge conflict of interest that cannot be resolved with postmasters selling EDDM. If postmasters are going to become competitive advertising sales persons, USPS should be required to create Chinese walls around their access to BMEU data and other competitive mailing information.

The Postal Service, under tremendous pressure itself to demonstrate growth of the mail in some form or fashion, should be taking a more serious look at whether trying to turn local postal officials into a sales force is a smart use of its stressed workforce. Advertising sales is not necessarily compatible with the skill set of a successful executive in the distribution supply chain. At what cost to the quality of the system is this apparent conversion of talents occurring?

4. What is the impact upon other mailers of operational diversion because of the third-bundle rule?

Numerous commenters have expressed concern in the Market Test docket over the work rule limitations upon the number of bundles carriers can be required to handle in a single route. E.G, Comments of Globe Direct, Docket MT 2011-3, January 27, 2011. The Postal Service admits that a particular impact upon park-and-loop carriers

may occur. If an EDDM mailing sets up the need for a fourth bundle, only two options are available: casing the mail to commingle the EDDM mailing with the existing third bundle or deferring one Saturation mailing to another day. USPS has no clear rules on how to accommodate the latter, but the aforementioned pressure on postmasters to show success with EDDM suggests that deferral will be visited upon an existing customer before a postmaster delays its own favored new product.

NNA submits that expecting the Postal Service to study and report on this phenomenon sets up a conflict of interest. The Commission is dependent upon the Service for operational data and has only a limited window into this decision-making process. However, the Postal Service's Office of the Inspector General does have a larger window into the process. The Commission should by letter ask the Postal Service OIG to examine key questions, particularly in light of the fact that raising the ceiling of permitted mail pieces to 5,000 per ZIP code per day may dramatically increase the instances where conflicts occur:

1. Has a deferral already been required during the Market Test, and if so, which program was deferred?
2. If commingling was required at a carrier case, at what cost?
3. If future EDDM growth generated many more conflicts with the third bundle rule, what would be the costs and potential impact upon existing customers?
4. If deferrals were required in the future as a routine matter, what direction will be given to postmasters on which mail is deferred?

5. What are the true direct and indirect costs of the program?

The Postal Service asserts that its systems cannot capture the costs of EDDM as yet, but that it will begin capturing direct costs in FY 2013. Meanwhile, it proposes using Saturation Mail costs as a proxy.

NNA is prepared to believe its systems cannot capture present the small volume EDDM costs, given NNA's long and frustrating history with seeking accurate costs of the small volume Within County Periodicals mail. The fact that non POS ONE offices are already reporting EDDM volumes suggests that even after USPS sets up its 2013 cost measurement system, it will experience numerous measurement problems, as it does for Within County. Increasing the price slightly to 16 cents may be among its hedges against inaccurate measurements.

Use of Saturation mail cost proxies, however, is not satisfactory unless the Commission is willing to expect mailers harmed by the program to also share in the cost of supporting it. Direct cost measurements that incorporate all costs fairly attributable to the program--whether volume variable or not--are necessary to avoid adding additional burdens to mailers now facing this new competitive threat. Among the concerns the Commission should raise are the following:

- a. If casing is being forced by an EDDM's mailing bumping up against the third bundle rule, will the additional mail processing cost be borne unfairly by Standard or Periodicals carrier-route mailers already in the system?
- b. Are the costs of training for the marketing of EDDM being fairly borne by EDDM-R? The costs of training should not be spread across all EDDM, including the volumes coming in through BMEUs unless the Postal Service and Commission determine that mail service providers, newspaper publishers and others who are already experienced mail users require the amount of additional training that it is directing to small business non-mailers, and if such determination is made the relative cost of training must be fairly allocated between the two channels.
- c. Are the costs of replacement workers being fairly borne by EDDM-R? If a postmaster or other local supervisor is being tasked with making advertising sales calls, how is the traditional work of that individual being accomplished? Are

additional staff being required? The cost of sales in a traditional advertising sales force includes the time and cost of the sales force and is assessed entirely against the price of a product. If USPS is going to turn itself into an advertising sales force, it must fairly attribute its cost of sales to the product.

d. Are the advertising costs of EDDM driven by the Retail channel being fairly attributed to EDDM-R? Similar to the training aspects of this program, the marketing costs of this product would be wholly different if targeted to mailing professionals than if targeted to a general business community. NNA is extremely troubled by the cursory explanation of advertising cost attributions contained in the Postal Service's petition. The explanation suggests that the Service plans to allocate most of EDDM's advertising cost to other "channels," without explaining what those are and how they deserve a portion of the cost. The Postal Service has already been criticized by its OIG for unfair attribution of advertising costs in the Parcel products to advantage its own market position. It is in a highly vulnerable position in EDDM, where every incentive would lean toward lightening the cost load for EDDM-R and making other mailers bear the costs of the program. Among the questions the Commission should ask are:

- i. What was the total cost of television advertising for EDDM, and what population was the target? It is unlikely that mail service providers using the BMEUs for EDDM were the targets, given that those are customarily reached by less costly USPS communications vehicles, like the Postal Bulletin and USPS.com. More likely the small business community were the targets and EDDM-R was the product they were being urged to embrace. All of that TV cost must be borne by EDDM;
- ii. What was the total cost of social media advertising for EDDM? Again, the principal purpose of that advertising was apparently to reach customers outside the traditional mailing community. All of that social media cost must be borne by EDDM;

iii. What was the total production cost and equivalent of postage charge for direct mail pieces to local businesses for EDDM-R? USPS cannot be permitted to use its own channels free of charge for this promotion. It must be charged to EDDM-R.

iv. What were the costs of training seminars for local communities? All of those costs must be charged to EDDM-R.

e. How are EDDM promoters responding to questions about mail piece design and printing providers? Businesses approached by EDDM marketers may be told mail is now easier and cheaper to enter, but they are still left with the questions traditional advertising sales forces are trained to answer. E. G., how can I get my mail piece designed? Who will print it? What will it cost?

Presumably, USPS is not yet in the printing and design business. But closing a sale for local direct mail advertising requires responses to these questions. How are USPS officials responding? Are they directing business to certain vendors? If so, how are those vendors chosen? Is there fair competition for that business?

The Postal Service's admission that it is working with Minuteman Press, for example, to market EDDM raises questions of discrimination and favoritism. NNA is unaware of requests for bids from the printing and design industries for this business.

A subsidiary question is whether the tests for impact upon small businesses in 39 U.S.C 404a are implicated in these processes. Likely if USPS is partnering with printers and designers, it is seeking vendors with a national footprint. Will local printers be knocked out of the market by a USPS partnership? Or will local postmasters be required to present potential customers with lists of local printers

and designers--including the local newspaper. If these questions are being dealt with, NNA is unaware. But if they are, the development of such lists are an additional cost to be attributed to EDDM-R--a cost that would be completely avoided if USPS followed Heath's suggestion and let the mailing industry compete in the normal fashion.

A path forward is to gather more information and ask more questions

Numerous other questions may be raised about this program by other intervenors. It is difficult to support the Postal Service's cursory examination of obvious reservations about EDDM-R in light of the serious potential impacts upon the advertising marketplace and other mailers.

NNA believes the Commission should issue a new order specifically inviting commenters to suggest questions similar to the ones NNA has raised and should pose the questions it deems essential to understanding the implications of EDDM-R before accepting the Postal Service's happy report that it has generated \$43 million in new revenues. After a fully developed record is available to intervenors, the Commission should then invite a round of comment upon issues of law in the matter, including potential consequences of unfair competition.

Conclusion

NNA reiterates that this program newly injects USPS into competition with its own customers. By focusing upon costs, logistics, mail diversion and other impacts of this program, NNA does not by any means intend to waive its concerns with unfair competition. Rather, it finds that in the absence of a record that fully develops responses to the significant questions raised by this new program, concluding whether competition is fair, whether the program efficiently uses USPS network and resources and whether the product is being assessed its fair costs is impossible.

Respectfully submitted,

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